

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 PA-02 DOE-11 SOE-02 AGRE-00 L-03 /128 W
-----107710 142138Z /41

R 141940Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6763
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652:N/A
TAG: ECON, EFIN, GW
SUB: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 13)

REF: BONN 4135

1. FOREIGN EXCHANGE MARKET:
THE DOLLAR ROSE STEADILY ON GERMAN FOREIGN
EXCHANGE MARKETS THROUGH MOST OF THE PERIOD UNDER
REVIEW, ONLY TO SLIP BACK ON TUESDAY, MARCH 14.
RUMOURS, FIRING INFLATED EXPECTATIONS, OF A
MAJOR U.S./FRG ACTION WERE LARGELY RESPONSIBLE FOR
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THE DOLLAR'S STRENGTHENING ON FRIDAY AND THROUGH THE
OFFICIAL FIXING ON MONDAY. IN GENERAL,
HOWEVER, THE MEASURES ANNOUNCED WERE A DISAPPOINTMENT,
JUDGING FROM MOST FINANCIAL PRESS REPORTING AND THE
THREE PFENNIG DECLINE IN THE DOLLAR/DM EXCHANGE
RATE ON TUESDAY. PRESS COVERAGE BY MAJOR GERMAN
NEWSPAPERS (DIE WELT, FRANKFURTER ALLGEMEINE, HANDELS-

BLATT) CARRY ACCURATE DESCRIPTIONS OF WHAT WAS AGREED UPON, HOWEVER, MOST REPORTING COMES FINALLY TO THE QUESTION OF, WHY SO MUCH FUSS OVER THIS? (SEE SEPTEL FOR MATTHOEFER/EMMINGER PRESS CONFERENCE). FOR THE PERIOD FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS		
	(IN DM PER \$1.--)			(IN PCT. PER ANNUM)		
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH	
	-----	-----	-----	-----	-----	
MAR. 7	2.0300	2.0350	2.0240	-3.8	-4.3	
8	2.0185	2.0080	2.0115	-3.3	-4.1	
2.0250	2.0302	2.0295	-3.3	-3.9		
10	2.0465	2.0585	2.0600	-4.1	-4.0	
13	2.0840	2.0841	2.0605	-4.0	-4.1	
14	2.0480	2.0535	N.A.	N.A.	N.A.	

2. BUNDESBANK FOREIGN POSITION:
IN THE FIRST WEEK OF MARCH THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 92.5 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY ABOUT DM 1.6 BILLION REFLECTING REPAYMENT OF A PART OF THE BUNDESBANK'S GOLD-BACKED LOAN TO THE ITALIAN CENTRAL BANK AND BUNDESBANK INTERVENTIONS IN FOREIGN CURRENCIES, E.G. THE DOLLAR. SDR HOLDINGS UNCLASSIFIED

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DECLINED BY DM 124 MILLION, GERMANY'S IMV GOLD TRANCHE DECLINED BY DM 212 MILLION AND CLAIMS AGAINST THE EUROPEAN MONETARY FUND FELL DM 90 MILLION. IN ADDITION, CREDITS TO FOREIGN MONETARY AUTHORITIES DECLINED BY DM 1.0 BILLION. FOREIGN LIABILITIES DECLINED BY ABOUT DM 50 MILLION.

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 6764
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INFO AMEMBASSY BERN
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3. BANK LIQUIDITY:

IN THE SAME PERIOD, BANK LIQUIDITY DECLINED BY
DM 0.2 BILLION. THE MAJOR CONTRACTING FACTOR WAS A
DM 2.1 BILLION RESTOCKING OF BANKS RESERVES AT THE
BUNDESBANK. CURRENCY IN CIRCULATION INCREASED BY
DM 0.5 BILLION AND REPAYMENT BY PUBLIC AUTHORITIES OF
DM 0.1 BILLION IN CREDITS FROM THE BUNDESBANK FURTHER
REDUCED LIQUIDITY. INCREASED LIQUIDITY WAS
PROVIDED THROUGH REDUCTIONS OF OFFICIAL ASSETS HELD AT
THE BUNDESBANK OF DM 2.5 BILLION, THE ABOVE MENTIONED
DM 0.2 BILLION INCREASE IN THE BUNDESBANK FOREIGN
POSITION AND BY DM 0.1 BILLION EACH IN RETURNS OF BONDS
AND MONEY MARKET PAPER. OTHER, UNIDENTIFIED FACTORS
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INCREASED LIQUIDITY BY DM 0.1 BILLION. BANKS
FINANCED THE LIQUIDITY LOSS BY UPPING REDISCOUNT
BORROWINGS BY DM 1.7 BILLION. AT THE SAME TIME LOMBARD
BORROWINGS WERE REDUCED BY DM 1.6 BILLION (FIGURES
ARE ROUNDED).

4. MONEY MARKET:

MONEY MARKET RATES REMAINED STABLE DURING THE PERIOD
UNDER REVIEW. CALL, ONE-MONTH AND THREE-MONTH MONEY
RATES ARE CURRENTLY ALL AT ABOUT THE 3.5 PERCENT
LOMBARD LENDING RATE. FOLLOWING ARE FRANKFURT
INTERBANK MONEY RATES FOR MARCH 7-MARCH 13:

CALL MONEY ONE-MONTH THREE-MONTH

	CALL MONEY	ONE-MONTH	THREE-MONTH
MAR. 7	3.50-3.60	3.45	3.45
8	3.50-3.60	3.50	3.50
9	3.50-3.60	3.50	3.50
10	3.50-3.60	3.50	3.50
13	3.50-3.55	3.50	3.50

5. BUNDESBANK REOPENS SPECIAL REDISCOUNT FACILITY:
 APPARANTLY DUE TO THE FACT THAT THE MONEY MARKET
 REMAINED RELATIVELY TIGHT IN EARLY MARCH AND MAY
 REMAIN TIGHT IN THE REMAINDER OF MARCH DUE TO THE
 COINCIDENCE OF A MAJOR MID-MONTH TAX DATE AND THE
 EASTER SEASON ON MARCH 13, THE BUNDESBANK, REACTIVATED
 ITS ON-AGAIN OFF-AGAIN SPECIAL REDISCOUNT FACILITY.
 THE BUNDESBANK WILL NOW DISCOUNT ELIGIBLE PAPER UNDER
 THIS FACILITY FOR A PERIOD OF 10 DAYS AT 3.25
 PERCENT RATE -- MID-POINT BETWEEN THE LOMBARD AND
 NORMAL REDISCOUNT RATES.

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6. TREASURY NOTES:
 THE BUNDESBANK, ACTING AS AGENT OF THE FEDERAL
 GOVERNMENT, HAS SOLD BY WAY OF TENDER DM 1.0 BILLION
 OF 3-YEAR TREASURY NOTES AND DM 0.7 BILLION OF
 4-YEAR TREASURY NOTES (SEE BONN 4135). THE
 3-YEAR NOTES CARRIED A COUPON OF 4 PERCENT AND WERE
 SOLD AT A PRICE OF 99.10 (YIELD TO MATURITY 4.33
 PERCENT), WHILE THE 4-YEAR NOTES HAD A COUPON OF
 4 1/4 PERCENT AND WERE SOLD AT 98.80 (YIELD TO
 MATURITY 4.59 PERCENT). BIDS HAD TOTALLED DM 2.5
 BILLION. FOR THE 3-YEAR NOTES SELLING PRICES WERE
 0.20 PERCENT AND FOR THE 4-YEAR NOTES
 0.10 PERCENT ABOVE MINIMUM PRICES ESTABLISHED BY
 THE BUNDESBANK.

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7. RECALL OF FEDERAL GOVERNMENT BONDS:
THE FEDERAL GOVERNMENT HAS ANNOUNCED IT WILL RETIRE ITS
1973 FEDERAL GOVERNMENT LOAN 3 YEARS BEFORE
FINAL MATURITY. THE LOAN, TOTALING DM 1.0 BILLION,
CARRIES A 10 PERCENT COUPON RATE. CURRENT BOND MARKET
CONDITIONS PERMIT THE FEDERAL GOVERNMENT TO BORROW FOR
THE SAME MATURITY AT A 5 1/2 PERCENT COUPON RATE. THE
LOAN IS BEING RECALLED IN TWO TRANCHES, DM 500 MILLION
IN AUGUST OF THIS YEAR AND THE REMAINING 500 MILLION
IN OCTOBER. FOLLOWING THE GOVERNMENT'S DECISION, THE
CITY OF BERLIN ALSO RECALLED ITS 10 PERCENT LOAN OF
1973.

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COMMENT: THIS IS THE FIRST TIME IN OUR MEMORY
THAT THE FEDERAL GOVERNMENT HAS TAKEN SUCH AN ACTION.
THE GOVERNMENT HAS EMPHASIZED THE CONSEQUENT INTEREST SAVINGS IN
REFINANCING THIS DEBT AND THE CONSEQUENT REDUCTION IN THE TAX
BURDEN. CAPITAL MARKETS, ACCORDING TO PRESS ACCOUNTS,
ARE TAKING THE ACTION IN STRIDE.

8. FEDERAL SAVINGS BONDS:
EFFECTIVE MARCH 10, THE FEDERAL GOVERNMENT DISCONTINUED
SALES OF FEDERAL SAVINGS BONDS. IT IS EXPECTED THAT
SAVINGS BONDS SALES WILL BE RESUMED AFTER MARCH 20

WITH BONDS CARRYING A SOMEWHAT LOWER EFFECTIVE YIELD.
YIELD OF THE OLD SAVINGS BONDS WAS 5.21 PERCENT (6 YEAR
MATURITY, ANNUAL INTEREST PAYMENTS) AND 5.46 PERCENT
(7 YEAR MATURITY, ACCUMULATED INTEREST).

9. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS SLIGHT PRICE DECLINES
PREVAILED SINCE RUMOURS THAT THE FRG MIGHT
ALSO INTRODUCE CONTROLS ON CAPITAL IMPORTS, AS WAS
DONE IN SWITZERLAND, CONTINUED TO CIRCULATE. ACCORDING
TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC
BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	7	9	10
MARCH 10	3.75	4.55	5.05	5.40	5.80	5.85
FEBRUARY 24	3.75	4.50	4.95	5.40	5.65	5.75

MARCH 10	3.75	4.55	5.05	5.40	5.80	5.85
FEBRUARY 24	3.75	4.50	4.95	5.40	5.65	5.75

10. FOREIGN DM BONDS:

THE DM 100 MILLION LOAN OF THE PHILIPPINES (SEE
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BONN 4135) WILL BE OFFERED AT A COUPON OF 6 3/4 PER-
CENT AND A MATURITY OF 7 YEARS. THE DM 150 MILLION
LOAN OF THE MEXICAN COMISION FEDERAL DE ELECTRICIDAD
(CFE) WILL BE FLOATED AT A COUPON OF 6 3/4 PERCENT, AN
ISSUE PRICE OF 100 AND A MATURITY OF 10 YEARS WITH
REPAYMENT TO BEGIN AFTER 5 YEARS. THE DM 70 MILLION
LOAN OF THE AUSTRIAN TAUERNAUTOBAHN WILL CARRY A
COUPON OF 5 1/2 PERCENT (REDUCED FROM THE PREVIOUSLY
PLANNED 5 3/4 PERCENT), AN ISSUE PRICE OF 100 AND A
MAXIMUM MATURITY OF 15 YEARS. REPORTEDLY THE
KVAERNER INDUSTRIER A/S, OSLO HAS PRIVATELY PLACED
BONDS OF DM 20 MILLION AT A COUPON OF 5 3/4 PERCENT,
AN ISSUE PRICE OF 100 AND A MAXIMUM MATURITY OF 10
YEARS.

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11. PRICE DISCUSSIONS FOR IRANIAN OIL DELIVERIES TO THE
FRG:
ACCORDING TO A MARCH 13 REPORT OF "DIE WELT" IRAN PLANS
TO REPLACE THE DOLLAR AS THE PRICE BASIS FOR
IRANIAN OIL DELIVERIES TO THE FEDERAL REPUBLIC. THE
NEW PRICE BASIS WILL BE A MONETARY BASKET IN WHICH THE
DEUTSCHEMARK WILL HAVE AN IMPORTANT WEIGHT. THE INTRO-
DUCTION OF THE NEW BASIS WILL BE DISCUSSED AT THE
MARCH 14-17 MEETING BETWEEN IRANIAN ECONOMIC AND
FINANCE MINISTER MOHAMMAD YEGANEH AND ECONOMICS MINISTER
COUNT LAMBSDORFF. A FURTHER SUBJECT OF THE DISCUSSIONS
WILL BE AN EXTENSION OF DIRECT AND INDIRECT IRANIAN OIL
DELIVERIES TO THE FRG. IN ADDITION THE TWO MINISTERS
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WILL REPORTEDLY DISCUSS FINANCIAL ASPECTS OF DELIVERY
OF SEVERAL NUCLEAR POWER PLANTS BY THE GERMAN FIRM KWU
TO IRAN.

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES 1/

NOV. DEC. JAN. FEB.

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CONSUMER PRICES	3.7	3.5	3.2	3.0
IMPORT PRICES 1/	-0.9	-2.0	-4.5	---
EXPORT PRICES 2/	1.1	1.1	0.8	---

1/ PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL

2/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE
DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF
GOODS.

MEEHAN

NOTE: PRELIMINARY JANUARY 1978 INDUSTRIAL PRODUCTION
AND NEW ORDER DATA ARE CONTAINED IN BONN 4230.
REVISED FRG GNP ESTIMATES FOR 1977 JUST RELEASED
BY THE FEDERAL STATISTICAL OFFICE ARE REPORTED
BY SEPTEL.

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